

1976 ANNUAL REPORT OF THE BOARD OF
TRUSTEES OF THE FEDERAL OLD-AGE AND
SURVIVORS INSURANCE AND DISABILITY
INSURANCE TRUST FUNDS

COMMUNICATION

FROM

THE BOARD OF TRUSTEES, FEDERAL
OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE
TRUST FUNDS

TRANSMITTING

THE 1976 ANNUAL REPORT OF THE BOARD, PURSUANT TO
SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED



MAY 25, 1976.—Referred to the Committee on Ways and Means and
ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., May 24, 1976.

The SPEAKER OF THE HOUSE OF REPRESENTATIVES,
Washington, D.C.

SIR: We have the honor to transmit to you the 1976 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 36th such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

WILLIAM E. SIMON,
Secretary of the Treasury,
and Managing Trustee of the Trust Funds.

W. J. USERY, Jr.,
Secretary of Labor.

DAVID MATHEWS,
Secretary of Health, Education, and Welfare.

JAMES B. CARDWELL,
Commissioner of Social Security.

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1976 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Old-Age and Survivors Insurance Trust Fund, established on January 1, 1940, and the Federal Disability Insurance Trust Fund, established on August 1, 1956, are held by the Board of Trustees under the authority of Section 201(c) of the Social Security Act. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the Managing Trustee. The Commissioner of Social Security is Secretary of the Board. The Board of Trustees reports to the Congress once each year, in compliance with Section 201(c)(2) of the Social Security Act. This report is the annual report for 1976, the 36th such report.

HIGHLIGHTS

The more important developments since the 1975 annual report, discussed in more detail in later sections, are indicated below:

(a) The growth of the old-age, survivors, and disability insurance system during fiscal year 1975 was close to that predicted in the 1975 annual report. Income in fiscal 1975 amounted to \$66.7 billion, up by 16 percent over fiscal 1974. Outgo totaled \$64.7 billion, also up by 16 percent over fiscal 1974. The funds increased by \$2.0 billion in fiscal 1975, to a level of \$48.1 billion on June 30, 1975, an amount that was about equal to total outgo during the following 8 months. During fiscal year 1975, several changes affecting the operations of the trust funds occurred under the automatic increase provisions in the law. The first automatic cost-of-living benefit increase, determined to be 8.0 percent, became effective for June 1975. The published statement announcing the determination of the increase is shown in Appendix C. (This increase did not affect trust fund operations in fiscal year 1975, since June was the last month of the fiscal year and benefits for a given month are not paid until the following month.) The contribution and benefit base increased under the automatic provisions, from \$13,200 to \$14,100, effective January 1, 1975. The amount that a beneficiary may earn in a year and still receive all of his benefits under the retirement test (i.e., the annual exempt amount) also increased under the automatic provisions, from \$2,400 to \$2,520, effective January 1, 1975. The comparison of trust fund operations in fiscal year 1975 with operations in fiscal year 1974 is also affected by an 11-percent general benefit increase that became effective in two

steps—the first, an interim increase of 7 percent effective for the 3 months March–May 1974, followed by the full 11-percent increase effective for June 1974.

(b) The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program totaled 31.4 million by the end of June 1975. An estimated 100 million workers had earnings in calendar year 1975 that were taxable and creditable toward benefits under the program.

(c) The trust funds earned interest of \$2.8 billion during the fiscal year, equivalent to an effective annual rate of 6.5 percent on the total assets of the trust funds.

(d) Increases in the contribution and benefit base and in the annual exempt amount under the retirement test were determined in October 1975 under the automatic increase provisions in the law. The new amounts, effective for January 1, 1976, are \$15,300 and \$2,760, respectively. The published statement announcing the determination of these amounts is shown in Appendix D.

(e) An automatic cost-of-living benefit increase effective for June 1976 was determined to be 6.4 percent.

(f) Estimates of the future operations and status of the trust funds are shown in later sections under three alternative sets of assumptions for the period 1976–81. Under the intermediate set of these alternative assumptions, the projected outlays of the combined old-age and survivors insurance and disability insurance systems are estimated to exceed the tax income, according to the scheduled tax rates and estimated future increases in the contribution and benefit base, in every calendar year beginning with 1976. This annual deficit is estimated to be, on the average, 0.82 percent of taxable earnings over the 6-year period 1976–81. Assets of both the old-age and survivors insurance trust fund and the disability insurance trust fund are estimated to decline during this period; and, without legislation to provide additional financing, the assets of the disability insurance trust fund will be exhausted in 1979 and the assets of the old-age and survivors insurance trust fund will be exhausted in 1984.

(g) With regard to the long-range actuarial status of the system during the period 1976–2050, the projected outlays of the combined old-age and survivors insurance and disability insurance systems are estimated to exceed the tax income, according to the scheduled tax rates and estimated future increases in the contribution and benefit base, in every calendar year beginning with 1976. Estimates are shown based upon three alternative sets of assumptions. Under the intermediate set of these alternative assumptions, this annual deficit (i.e., the excess of outlays over tax income) is estimated to be, on the average, 1.91 percent of taxable earnings over the next 25-year period (1976–2000); 6.85 percent over the second 25-year period (2001–2025); and 15.14 percent over the third 25-year period (2026–2050). Over the entire 75-year period (1976–2050), the average annual deficit is estimated to be 7.96 percent of taxable payroll. These deficits, particularly for the period after the year 2000, should be interpreted with caution because they are based upon future benefit levels which are much higher, relative to preretirement earnings, than are currently prevailing benefit levels and which will not materialize if realistic legislation is enacted to redress the imbalance. These unrealistically

high benefit levels result from the complex and apparently unintentional way in which future benefits are related to changes in wages and the Consumer Price Index.

(h) Because of the artificially high benefits projected under present law, it was believed that a more realistic picture of the future financial status of the system would result from study of a "modified theoretical system" which would provide approximately the same levels of benefits, relative to earnings, in the future as are currently provided. Accordingly, estimates of income and outgo have been prepared and are presented in the report for a "modified theoretical system" which would maintain through time the relationship between average awarded benefits and average earnings at the beginning of 1978. After retirement, disability, or death, benefits would continue to be increased, as under present law, to adjust for changes in the Consumer Price Index. Even under the "modified theoretical system" the projected outlays of the combined old-age and survivors insurance and disability insurance systems are estimated to exceed the tax income, according to the scheduled tax rates and estimated future increases in the contribution and benefit base, in every calendar year beginning with 1976. Under the intermediate set of the three alternative sets of assumptions, this annual deficit is estimated to be, on the average, 1.68 percent of taxable earnings over the next 25-year period (1976-2000); 3.81 percent over the second 25-year period (2001-2025); and 7.40 percent over the third 25-year period (2026-2050). Over the entire 75-year period (1976-2050), the average annual deficit is estimated to be 4.28 percent of taxable payroll.

(i) Social security coverage for public employees of the States and their political subdivisions is available only on a group voluntary basis through agreements between the Secretary of Health, Education, and Welfare and the individual States. After coverage of the employees of a State, or of a political subdivision of the State, has been in effect for at least 5 years, the State may give notice of its intention to terminate the coverage of such employees. The termination of coverage becomes effective 2 years after such notice is given, unless the State withdraws the notice of termination within the 2-year period. However, once the termination becomes effective, the decision is irrevocable and the same group of employees cannot be brought back into coverage again. In the past 4 years there has been an increasing trend in the termination of coverage for groups of State and local government employees. Despite this trend, the total number of employees becoming covered under new agreements in each year through 1975 has been larger than the number of employees for whom coverage was terminated during the year. However, this relationship may be reversed as a result of increased interest in the termination of coverage on the part of some larger groups of State and local government employees. Recently, notice has been given of the intention to terminate coverage of some of these larger groups of employees. The filing of such a notice by a State does not necessarily mean that coverage will be terminated because, as noted above, the State may withdraw the notice during the 2-year period before the termination becomes effective. The termination of coverage for any large number of State or local government employees would have an adverse effect on the status of the trust funds, especially in the short range. In fiscal

year 1975, tax contributions received by the trust funds from workers employed by State and local governments and from such employers, under all of the coverage agreements in effect, amounted to \$6.7 billion, or about 11 percent of total tax contributions in the year. The estimates presented in this report do not reflect the effects of any coverage terminations that may become effective in the future.

SOCIAL SECURITY AMENDMENTS SINCE 1975 REPORT

Public Law 94-202, enacted January 2, 1976, amended provisions of the law governing hearings and judicial review and also included a provision to institute a single annual wage reporting system for both social security and Federal income tax purposes. Under the annual reporting provisions, employers will no longer be required to file quarterly reports of taxable wages paid to each employee, beginning with wages paid in calendar year 1978. Instead, the same annual report used for Federal income tax purposes (Form W-2) will also be used in determining eligibility for social security benefits and the amount of such benefits payable on individual earnings records.

The annual reporting provisions also make important changes in the method used to determine automatic increases in the contribution and benefit base and in the retirement test exempt amount. Under prior law, any new determination of such automatic increases was based on the increase in average taxable wages paid in the first calendar quarter of the year in which the latest determination was made to the first calendar quarter of the year in which the new determination is being made. Under the law as modified by Public Law 94-202, total annual wages, rather than first-quarter taxable wages, will be used in making automatic increase determinations.

In determining the base and the exempt amount for each year 1977-80, the amount of annual average wages in any given year 1978 or prior, as required for the determination, will be deemed to be 4 times the amount of average taxable wages in the first quarter of the given year. There will also be a 1-year shift in the measuring period for determining the increases for 1977 and later, since annual wage data will not become available until about 1 year later than first-quarter data under the quarterly reporting system. (Although annual reporting does not begin until 1978, the 1-year shift in the measuring period begins with the 1976 determination.) For example, the base for 1977—to be determined in 1976—is to be based on the increase in annual average wages from 1974 (deemed to be 4 times average taxable wages for the first quarter of 1974) to 1975 (deemed to be 4 times average taxable wages for the first quarter of 1975). Because of this 1-year shift, the percentage increase in average wages to be used in the determination of the base and the exempt amount for 1977 is the same as the percentage used in establishing the corresponding amounts for 1976.

The base and the exempt amount for any year after 1980 will be determined based on the increase in annual average wages from the year preceding the last year in which such a determination was made to the year immediately preceding the year in which a new determination is being made.

NATURE OF THE TRUST FUNDS

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, as a separate account in the United States Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations which relate to the system of old-age and survivors insurance are handled through this fund. The Social Security Amendments of 1956, which became law August 1, 1956, provided for the creation of the Federal disability insurance trust fund—a fund entirely separate from the old-age and survivors insurance trust fund—through which are handled all financial operations in connection with the system of monthly disability benefits payable to disabled insured workers under age 65 and to their dependents.

The major sources of receipts of these two funds are (1) amounts appropriated to each of them under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the old-age, survivors, and disability insurance program and (2) amounts deposited in each of them representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount.

The contribution rates applicable to taxable earnings in each of the calendar years 1937 and later, and the allocation of the rates to finance expenditures from each of the two trust funds, are shown in table 1. For 1977 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year, 1937-76, is also shown in table 1. Beginning with 1975, the maximum amount of earnings taxable in each year is determined in the preceding year under the automatic increase provisions in section 230 of the Social Security Act, unless modified by intervening Congressional action.

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections; then, on an estimated basis, the contributions

received are immediately and automatically appropriated to the trust funds. The exact amount of contributions received is not known initially since old-age, survivors, disability, and hospital insurance contributions and individual income taxes are not separately identified in collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

TABLE 1.—CONTRIBUTION RATES AND MAXIMUM TAXABLE AMOUNT OF ANNUAL EARNINGS

Calendar years	Maximum taxable amount of annual earnings	Contribution rates (percent of taxable earnings)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
Past experience:							
1937-49	\$3,000	1.000	1.000				
1950	3,000	1.500	1.500				
1951-53	3,600	1.500	1.500		2.2500	2.2500	
1954	3,600	2.000	2.000		3.0000	3.0000	
1955-56	4,200	2.000	2.000		3.0000	3.0000	
1957-58	4,200	2.250	2.000	0.250	3.3750	3.0000	0.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960-61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.3250	.3750
1963-65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.800	3.325	.475	5.8000	5.0875	.7125
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8250
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
1976	15,300	4.950	4.375	.575	7.0000	6.1850	.8150
Changes scheduled in present law:							
1977	(1)	4.950	4.375	.575	7.0000	6.1850	.8150
1978-80	(1)	4.950	4.350	.600	7.0000	6.1500	.8500
1981-85	(1)	4.950	4.300	.650	7.0000	6.0800	.9200
1986-2010	(1)	4.950	4.250	.700	7.0000	6.0100	.9900
2011 and later	(1)	5.950	5.100	.850	7.0000	6.0000	1.0000

¹ Subject to automatic increase.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum can receive a refund of the contributions he paid on such excess wages. The amount of contributions subject to refund for any period is a charge against each of the trust funds in the ratio in which the amount was appropriated to or deposited in such trust funds for that period.

Another source from which receipts of the trust funds are derived is interest received on investments held by the funds. The investment procedures of the funds are described later in this section.

The income and expenditures of the trust funds are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the old-age, survivors, and disability insurance program.

Sections 217(g) and 229(b) of the Social Security Act authorize annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds

for any costs arising from the granting of noncontributory wage credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare.

Section 228 of the Social Security Act provides monthly cash benefits to certain persons aged 72 and over, almost all of whom are not eligible for cash benefits under other provisions of the old-age, survivors, and disability insurance program. Under section 228, all payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement, with interest, from the general fund of the Treasury for the costs, including administrative expenses, of payments to persons who have less than 3 quarters of coverage. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed.

Section 231 of the Social Security Act authorizes reimbursement from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for any costs arising from the granting of noncontributory wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal government for the internment of persons of Japanese ancestry.

Section 201(i) of the Social Security Act authorizes the Managing Trustee to accept and deposit in the trust funds unconditional money gifts or bequests made for the benefit of the trust funds or any activity financed through such funds.

Expenditures for benefit payments and administrative expenses under the old-age, survivors, and disability insurance program are paid out of the trust funds. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of Title II of the Social Security Act and of the Internal Revenue Code relating to the collection of contributions are charged to the trust funds. The Secretary of Health, Education, and Welfare certifies benefit payments to the Managing Trustee, who makes the payment from the respective trust funds in accordance therewith.

Section 222(d) of the Social Security Act provides for payments from the trust funds for the cost of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability. The total amount of funds that may be made available in a fiscal year for payments for the costs of such services, including applicable administrative expenses of State agencies, may not exceed a specified percentage of the benefits certified for payment to these types of beneficiaries in the preceding year. This limitation on the amount to be made available was 1 percent in each of the fiscal years 1966 (when such amounts were first made available) through 1972 and 1¼ percent in fiscal year 1973. Under present law, the limitation is 1½ percent in fiscal years after 1973.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1974, construction of several large facilities was begun under purchase contract authority,

wherein initial capital costs are borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust funds presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures, and therefore is not viewed as being a consideration in assessing the actuarial status of the funds.

That portion of each trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds that shall bear interest at a rate based on the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month.

SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1975

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year which began on July 1, 1974, and ended on June 30, 1975, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Comparable amounts for fiscal year 1974 are also shown in the table.

The total assets of the old-age and survivors insurance trust fund amounted to \$37,867 million on June 30, 1974. During fiscal year 1975, total receipts amounted to \$58,757 million and total disbursements were \$56,676 million. The assets of the trust fund amounted to \$39,948 million at the end of fiscal year 1975, or \$2,081 million more than at the beginning of the year.

Included in total receipts during fiscal year 1975 were \$50,389 million representing contributions appropriated to the fund, and \$5,898 million representing amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, \$270 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING FISCAL YEARS 1974 AND 1975

[In thousands]

	Fiscal year 1974	Fiscal year 1975
Total assets of the trust fund, beginning of year	\$36, 415, 896	\$37, 867, 008
Receipts:		
Contributions:		
Appropriations	43, 857, 792	50, 389, 101
Deposits arising from State agreements	4, 989, 458	5, 897, 892
Gross contributions	48, 847, 250	56, 286, 993
Less payment into the Treasury for contributions subject to refund	392, 557	269, 650
Net contributions	48, 454, 693	56, 017, 343
Reimbursement from general fund of the Treasury for costs of:		
Noncontributory credits for military service	139, 000	140, 000
Payments to noninsured persons aged 72 and over:		
Benefit payments	265, 890	266, 349
Administrative expenses	3, 173	3, 477
Interest	33, 724	37, 497
Total reimbursement for payments to noninsured persons aged 72 and over	302, 788	307, 323
Interest:		
Interest on investments	2, 039, 660	2, 296, 908
Interest received from general fund of the Treasury on funds advanced in fiscal year 1973 from the old-age and survivors insurance trust fund to finance administrative expenses of the supplemental security income program	656	
Gross interest	2, 040, 317	2, 296, 908
Less interest on amount transferred to the supplemental security income general fund account due to adjustment in allocation of administrative expenses		2, 840
Less interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs	1, 054	1, 818
Less interest on amounts transferred to disability insurance trust fund due to adjustment in allocation of cost of vocational rehabilitation services	20	68
Net interest	2, 039, 243	2, 292, 182
Gifts	(1)	14
Total receipts	50, 935, 724	58, 756, 862
Disbursements:		
Benefit payments	47, 848, 838	54, 838, 818
Transfer to railroad retirement account	908, 585	981, 785
Payment for cost of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year	3, 534	6, 766
Transfer to the disability insurance trust fund due to adjustment in allocation of cost for prior fiscal year	340	965
Total	3, 873	7, 731
Administrative expenses:		
Department of Health, Education, and Welfare	618, 506	723, 246
Treasury Department	87, 571	79, 239
Construction of facilities for Social Security Administration	4, 954	2, 409
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	40	52
Transfer to the supplemental security income general fund account due to adjustment in allocation of administrative expenses		25, 506

See footnotes at end of table, p. 1.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING FISCAL YEARS 1974 AND 1975—Continued

[In thousands]

	Fiscal year 1974	Fiscal year 1975
Disbursements:—Continued		
Administrative expenses—Continued		
Interfund transfers due to adjustment in allocation of:		
Administrative expenses ¹	12, 645	18, 536
Costs of construction ²	—353	—1, 149
Gross administrative expenses.....	723, 362	847, 837
Less receipts from sale of supplies, materials, etc.....	47	114
Net administrative expenses.....	723, 315	847, 723
Total disbursements.....	49, 484, 611	56, 676, 057
Net addition to the trust fund.....	1, 451, 113	2, 080, 805
Total assets of the trust fund, end of year.....	37, 867, 008	39, 947, 814

¹ Gifts amounted to \$174.78 in fiscal year 1974.² A positive figure represents a transfer from the old-age and survivors insurance trust fund to the other social security trust funds. A negative figure represents a transfer to the old-age and survivors insurance trust fund from the other social security trust funds.

Net contributions amounted to \$56,017 million, an increase of 15.6 percent over the amount for the preceding fiscal year. Growth in contribution income resulted primarily from (1) the higher level of taxable earnings, (2) the two increases in the maximum annual amount of earnings taxable—from \$10,800 to \$13,200 and from \$13,200 to \$14,100—that became effective on January 1, 1974, and January 1, 1975, respectively, and (3) the increase in the combined employer-employee contribution rate, allocated to finance the old-age and survivors insurance program, from 8.60 percent to 8.75 percent that became effective on January 1, 1974. Although the first increase in the maximum annual amount of earnings taxable, from \$10,800 to \$13,200, became effective in 1974, the first full fiscal year during which earnings between \$10,800 and \$13,200 were taxable was 1975. Similarly, although the increase in the combined employer-employee contribution rate allocated to finance the old-age and survivors insurance program, from 8.60 percent to 8.75 percent, became effective in 1974, the first full fiscal year during which the higher rate was operative was 1975.

Reference has been made in an earlier section to provisions of the Social Security Act under which the old-age and survivors insurance and disability insurance trust funds are to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service. In accordance with Section 217(g), the Secretary of Health, Education, and Welfare made a determination in 1970 of the level annual appropriations to the trust funds necessary to amortize over a 44-year period, beginning in fiscal year 1972, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made after August 1950 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966–71 that have been deposited into the trust funds. The annual amounts resulting from this determination were \$136 million for the old-age and survivors insurance trust fund and \$49 million for the disability insurance trust fund. In accordance with Section 229(b), the Secre-

tary determined that the old-age and survivors insurance trust fund should receive reimbursement of \$4 million, and the disability insurance trust fund should receive reimbursement of \$3 million, for additional costs attributable to noncontributory credit for military service performed after 1967. Thus, reimbursements amounting to \$140 million for the old-age and survivors insurance trust fund, and to \$52 million for the disability insurance trust fund, were received in December 1974.

Reference has also been made in an earlier section to provisions under which the old-age and survivors insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of monthly payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage. The reimbursement in fiscal year 1975 amounted to \$307 million.

Again, reference has been made in an earlier section to provisions under which money gifts or bequests may be deposited in the old-age and survivors insurance and disability insurance trust funds. In fiscal year 1975, the old-age and survivors insurance trust fund received gifts amounting to about \$14,500.

The remaining \$2,292 million of receipts consisted of interest on the investments of the trust fund and net interest on amounts of inter-fund transfers arising out of adjustments in the allocation of administrative expenses, construction costs, and the cost of vocational rehabilitation services for the prior fiscal year, 1974.

Of the \$56,676 million in total disbursements, \$54,839 million was for benefit payments, an increase of 14.6 percent over the corresponding amount paid in fiscal year 1974. This increase was due to (1) the amendments enacted on December 31, 1973, which provided for a general increase in benefits of 11 percent effective in two steps—an interim increase of 7 percent effective for the 3 months March–May 1974, followed by the full 11-percent increase effective for June 1974—and (2) the expected growth in the total number of beneficiaries and in average benefit amounts resulting from the rising level of earnings. Although the interim benefit increase of 7 percent became effective in fiscal year 1974, the first full fiscal year during which resulting higher benefit levels were operative was 1975.

Reference has been made in an earlier section to provisions of the Railroad Retirement Act which coordinate the railroad retirement and the old-age and survivors insurance programs and which govern the financial interchanges arising from the allocation of costs between the two systems. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of \$926,200,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this trust fund in the same position as of June 30, 1974, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the railroad retirement account in June 1975, together with interest to the date of transfer amounting to \$55,585,000.

Expenditures of the old-age and survivors insurance program for the cost of vocational rehabilitation services amounted to about \$7.7 million. These services were furnished to disabled adults—dependents of old-age beneficiaries and survivors of deceased insured workers—

who were receiving monthly benefits from the old-age and survivors insurance trust fund because of their disability.

The remaining \$848 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. The expenses of administering the programs financed through the four trust funds—the old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance trust funds—are allocated and charged directly to each trust fund on the basis of provisional estimates. Similarly, the expenses of administering the supplemental security income program are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by interfund transfers, including transfers between the old-age and survivors insurance trust fund and the supplemental security income general fund account, with appropriate interest allowances.

Net administrative expenses charged to the old-age and survivors insurance trust fund and to the disability insurance trust fund in fiscal year 1975 totaled \$1,101 million. This amount represented 1.7 percent of contribution income and 1.8 percent of expenditures for benefit payments and payments for the cost of vocational rehabilitation services during the fiscal year. Corresponding percentages for each of the last 5 years for the system as a whole and for each trust fund separately are shown in table 3.

TABLE 3.—RELATIONSHIP OF NET ADMINISTRATIVE EXPENSES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM TO CONTRIBUTION INCOME AND BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1971-75

Fiscal year	Total 1—Total administrative expenses as a percentage of—		Old-age and survivors insurance trust fund—Administrative expenses as a percentage of—		Disability insurance trust fund 1—Administrative expenses as a percentage of—	
	Total contribution income	Total benefit payments ²	Contribution income	Benefit payments ²	Contribution income	Benefit payments ¹
1971.....	2.0	2.1	1.7	1.8	4.2	5.6
1972.....	2.0	2.1	1.6	1.7	4.4	5.2
1973.....	2.0	1.9	1.6	1.6	4.5	4.7
1974.....	1.6	1.6	1.5	1.5	2.5	2.5
1975.....	1.7	1.8	1.5	1.5	3.4	3.3

¹ The percentages shown for fiscal years 1974 and 1975 reflect the effect of a change in the method of allocating administrative expenses among the 4 trust funds, which resulted in lower proportions allocated to the disability insurance trust fund. The percentages for fiscal year 1974 also reflect the effect of applying the modified method of allocating expenses retroactively to fiscal year 1973, with a resulting larger interfund transfer, in fiscal year 1974, to the disability insurance trust fund than would have otherwise occurred.

² In determining the percentage shown, payments for the cost of vocational rehabilitation services are included with benefit payments.

Note: In interpreting the figures in the above table, reference should be made to the accompanying text.

In table 4, the experience with respect to actual amounts of contributions and benefit payments in fiscal year 1975 is compared with the estimates for fiscal year 1975 which appeared in the 1974 and 1975 annual reports. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 4, it should be noted

that the "actual" amount of contributions in fiscal year 1975 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1975 does not reflect adjustments to contributions for fiscal year 1975 that were to be made after June 30, 1975. The actual experience for each trust fund was quite close, relatively, to the estimates.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1975

[Amounts in millions]

	Old-age and survivors insurance trust fund		Disability insurance trust fund	
	Net contributions	Benefit payments	Net contributions	Benefit payments
Actual amount.....	\$56,017	\$54,839	\$7,356	\$7,630
Estimated amount published in 1975 report.....	\$55,809	\$54,927	\$7,342	\$7,636
Actual as percentage of estimate.....	100	100	100	100
Estimated amount published in 1974 report under alternative I ¹	\$55,525	\$55,808	\$7,298	\$7,462
Actual as percentage of estimate.....	101	98	101	102
Estimated amount published in 1974 report under alternative II ¹	\$55,865	\$55,808	\$7,343	\$7,462
Actual as percentage of estimate.....	100	98	100	102

¹ Two alternative sets of estimates based on different economic assumptions were published in the 1974 annual report. Estimates of benefit payments in fiscal year 1975 were the same under both sets of assumptions.

Note: In interpreting the figures in the above table, reference should be made to the accompanying text.

At the end of fiscal year 1975, about 31.4 million persons were receiving monthly benefits under the old-age, survivors, and disability insurance program. About 27.2 million of these persons were receiving monthly benefits from the old-age and survivors insurance trust fund. The distribution of benefit payments in fiscal years 1974 and 1975, by type of beneficiary, is shown in table 5. Approximately 72 percent of the total benefit payments from the old-age and survivors insurance trust fund in fiscal year 1975 was accounted for by monthly benefits to retired workers and their dependents and about 17 percent by monthly benefits to aged survivors and disabled widows or widowers of deceased workers. Approximately 10 percent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to widowed mothers and fathers who had children of deceased workers in their care.

TABLE 5.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY AND PAYMENT, FISCAL YEARS 1974 AND 1975

[Dollar amounts in millions]

	1974		1975	
	Amount	Percent of total	Amount	Percent of total
Total.....	\$47,848.8	100	\$54,838.8	100
Monthly benefits.....	47,533.0	99	54,495.7	99
Retired workers and their dependents.....	34,372.6	72	39,659.2	72
Retired workers.....	30,795.9	64	35,588.0	65
Wives and husbands.....	3,090.1	6	3,500.3	6
Children.....	486.6	1	570.8	1
Survivors of deceased workers.....	12,909.7	27	14,620.1	27
Aged widows and widowers.....	7,767.3	16	8,847.9	16
Disabled widows and widowers.....	129.3	(1)	157.8	(1)
Parents.....	47.7	(1)	49.2	(1)
Children.....	4,124.6	9	4,619.9	8
Widowed mothers and fathers caring for child beneficiaries.....	840.8	2	945.3	2
Noninsured persons aged 72 and over ²	250.7	1	216.5	(1)
Lump-sum death payments.....	315.9	1	343.1	1

¹ Less than 0.5 percent.² The trust fund is reimbursed from the general fund of the Treasury for the costs of payments to beneficiaries with less than 3 quarters of coverage.

Benefit payments to noninsured persons aged 72 and over amounted to \$216 million, or somewhat less than 1/2 percent of total benefit payments from the trust fund. Reference has been made in an earlier section to the legislative provisions governing reimbursement from the general fund of the Treasury for the costs of such payments to persons who have fewer than three quarters of coverage. About 98 percent of the total amount of the payments made in fiscal year 1975 to noninsured persons aged 72 and over went to persons with fewer than three quarters of coverage.

The balance of the benefits paid during fiscal year 1975 consisted of lump-sum death payments.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1975 totaled \$39,948 million, consisting of \$39,879 million in the form of obligations of the U.S. Government or of federally sponsored agency obligations, and an undisbursed balance of \$69 million. Table 6 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1974 and 1975.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1974 AND 1975

	June 30, 1974		June 30, 1975	
	Par value	Book value ¹	Par value	Book value ¹
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
6 percent, 1975	\$17,450,000	\$17,450,000.00		
6½ percent, 1976	5,000,000	4,997,172.69	\$5,000,000	\$4,998,958.41
6½ percent, 1976	22,180,000	22,180,000.00	22,180,000	22,180,000.00
7 percent, 1975	50,000,000	49,966,666.52	50,000,000	49,990,195.88
7½ percent, 1976	90,500,000	90,338,097.70	90,500,000	90,415,810.90
8 percent, 1977	15,000,000	15,000,000.00	15,000,000	15,000,000.00
Treasury bonds:				
2¾ percent, investment series B, 1975-80	1,064,902,000	1,064,902,000.00	1,064,902,000	1,064,902,000.00
3 percent, 1995	70,170,000	70,148,924.32	70,170,000	70,149,948.28
3¼ percent, 1978-83	60,200,000	59,672,264.72	60,200,000	59,731,449.92
3¼ percent, 1985	25,700,000	24,758,181.71	25,700,000	24,845,118.83
3½ percent, 1980	449,450,000	452,212,611.87	449,450,000	451,776,410.07
3½ percent, 1990	556,250,000	549,637,617.06	556,250,000	550,061,941.26
3½ percent, 1998	552,037,000	544,525,177.84	552,037,000	544,833,883.00
4 percent, 1980	153,100,000	153,072,846.04	153,100,000	153,077,709.64
4½ percent, 1989-94	91,300,000	90,700,513.62	91,300,000	90,730,739.82
4½ percent, 1975-85	78,023,000	77,795,681.75	78,023,000	77,816,665.07
4½ percent, 1987-92	33,000,000	34,392,629.43	33,000,000	34,286,186.43
6¾ percent, 1984	31,500,000	31,961,671.02	31,500,000	31,916,260.74
7 percent, 1981	50,000,000	49,713,333.22	50,000,000	49,753,333.18
7½ percent, 1988-93	99,934,000	98,411,627.93	99,934,000	98,491,056.05
8½ percent, 2000-05	17,450,000	17,450,000.00	17,450,000	17,354,556.72
8½ percent, 1994-99	6,352,000	6,531,829.12	6,352,000	6,524,611.84
Total investments in public issues	3,522,048,000	3,508,368,846.56	3,522,048,000	3,508,836,836.04
Obligations sold only to this fund (special issues):				
Notes:				
5¾ percent, 1975	2,460,795,000	2,460,795,000.00		
5¾ percent, 1979	3,102,896,000	3,102,896,000.00	3,102,896,000	3,102,896,000.00
6¼ percent, 1978	3,468,850,000	3,468,850,000.00	3,468,850,000	3,468,850,000.00
6½ percent, 1976	3,844,864,000	3,844,864,000.00	3,844,864,000	3,844,864,000.00
6¾ percent, 1980	4,547,285,000	4,547,285,000.00	4,547,285,000	4,547,285,000.00
7¾ percent, 1977	5,033,296,000	5,033,296,000.00	5,033,296,000	5,033,296,000.00
Bonds:				
5¾ percent, 1976	760,998,000	760,998,000.00		
3¾ percent, 1977	1,080,011,000	1,080,011,000.00		
3¾ percent, 1978	658,444,000	658,444,000.00		
4½ percent, 1978	421,567,000	421,567,000.00		
4½ percent, 1979	1,080,011,000	1,080,011,000.00	1,069,517,000	1,069,517,000.00
4½ percent, 1980	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
7¾ percent, 1981			688,956,000	688,956,000.00
7¾ percent, 1982			688,956,000	688,956,000.00
7¾ percent, 1983			688,956,000	688,956,000.00
7¾ percent, 1984			688,956,000	688,956,000.00
7¾ percent, 1985			688,956,000	688,956,000.00
7¾ percent, 1986			688,956,000	688,956,000.00
7¾ percent, 1987			688,955,000	688,955,000.00
7¾ percent, 1988			688,956,000	688,956,000.00
7¾ percent, 1989			688,956,000	688,956,000.00
7¾ percent, 1990			1,366,865,000	1,366,865,000.00
7¾ percent, 1981	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7¾ percent, 1982	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7¾ percent, 1983	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7¾ percent, 1984	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7¾ percent, 1985	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7¾ percent, 1986	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7¾ percent, 1987	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7¾ percent, 1988	677,909,000	677,909,000.00	677,909,000	677,909,000.00
7¾ percent, 1989	677,909,000	677,909,000.00	677,909,000	677,909,000.00
Total obligations sold only to this fund (special issues)	33,640,216,000	33,640,216,000.00	35,815,375,000	35,815,375,000.00
Total investments in public-debt obligations	37,162,264,000	37,148,584,846.56	39,337,423,000	39,324,211,836.04

See footnotes at end of table, p. 16.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1974 AND 1975—Continued

	June 30, 1974		June 30, 1975	
	Par value	Book value ¹	Par value	Book value ¹
Investments in federally sponsored agency obligations:				
Participation certificates:				
Federal Assets Liquidation Trust-Government National Mortgage Association:				
5.10 percent, 1987.....	50,000,000	50,000,000.00	50,000,000	50,000,000.00
5.20 percent, 1982.....	100,000,000	100,000,000.00	100,000,000	100,000,000.00
Federal Assets Financing Trust-Government National Mortgage Association:				
6.05 percent, 1988.....	65,000,000	64,834,453.51	65,000,000	64,846,641.07
6.20 percent, 1988.....	230,000,000	230,000,000.00	230,000,000	230,000,000.00
6.40 percent, 1987.....	75,000,000	75,000,000.00	75,000,000	75,000,000.00
6.45 percent, 1988.....	35,000,000	35,000,000.00	35,000,000	35,000,000.00
Total investments in federally sponsored agency obligations.....	555,000,000	554,834,453.51	555,000,000	554,846,641.07
Total investments.....	37,717,264,000	37,703,419,300.07	39,892,423,000	39,879,658,477.11
Undisbursed balances.....		163,589,142.13		68,755,382.70
Total assets.....		37,867,008,442.20		39,947,813,859.81

¹ Par value, plus unamortized premium, less discount outstanding.

The net increase in the par value of the investments owned by the fund during fiscal year 1975 amounted to \$2,175 million. New securities at a total par value of \$66,859 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was \$64,684 million. Included in these amounts is \$59,292 million in certificates of indebtedness that were acquired and redeemed within the fiscal year. In addition, \$17 million in 6-percent notes maturing in May 1975 were exchanged for an equal amount of 8 1/4-percent bonds maturing in May 2005. Although the interest rate on bonds is generally limited to 4 1/4 percent by the provisions of 31 U.S.C. 752, amendments to these provisions authorize the issuance of bonds at rates of interest exceeding 4 1/4 percent, subject to certain restrictions. Public Law 92-5, enacted March 17, 1971, amended the provisions to authorize the issuance to the public and to Government accounts of up to a total of \$10 billion in bonds at rates of interest exceeding 4 1/4 percent. Public Law 93-53, enacted July 1, 1973, further amended the provisions of 31 U.S.C. 752 by (1) removing the \$10 billion limitation on the aggregate face amount of such bonds that may be issued and (2) limiting the amount of such bonds that may be held by the public at any one time to \$10 billion.

The effective annual rate of interest earned by the assets of the old-age and survivors insurance trust fund during fiscal year 1975 was 6.5 percent. The interest rate on special issues purchased by the trust fund in June 1975 was 7 3/8 percent, payable semiannually.

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance trust fund and the disability insurance trust fund shall have maturities fixed with due regard for the needs of the funds. Under these amendments, the general practice in the past was to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts

over a 15-year period. As a result of this practice, the old-age and survivors insurance trust fund held special issues totaling \$2,150 million, acquired before 1966, that consisted of \$1,070 million maturing in 1979 and \$1,080 million maturing in 1980 (table 6).

However, the interest rate on special issues acquired in June of each year 1966-75, as determined under section 201(d) of the Social Security Act, was higher than the maximum rate of 4¼ percent to which the interest rate on long-term issues (bonds) is generally limited. Thus, the former practice could not be followed until the enactment of Public Law 93-53 on July 1, 1973. Accordingly, the entire amounts available for investment in June of each year 1966-73 were invested in short-term issues (notes). As a result, the old-age and survivors insurance trust fund held \$19,997 million in special issues consisting of 7-year notes that were distributed in varying amounts maturing on June 30 of each year 1976-80 (table 6).

On June 30, 1974, the investment practice in effect before 1966 was reinstated. As a result, the old-age and survivors insurance trust fund held \$13,669 million in special issues at the end of June 1975 that were acquired in 1974 and 1975 and were distributed in virtually equal amounts of about \$1,367 million maturing in each of the years 1981-1990 (table 6). The investment operations of the fund in fiscal years 1974 and earlier are described in the 1975, and earlier, annual reports.

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1975

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1975, and of the assets of the fund at the beginning and end of the fiscal year is presented in table 7. Comparable amounts for fiscal year 1974 are also shown in the table.

The total assets of the disability insurance trust fund amounted to \$8,253 million on June 30, 1974. During fiscal year 1975, total receipts amounted to \$7,920 million and total disbursements were \$7,982 million. The assets of the trust fund thus decreased \$62 million during the year to a total of \$8,191 million on June 30, 1975.

Included in total receipts were \$6,616 million representing contributions appropriated to the fund, and \$776 million representing amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, \$35 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

Net contributions amounted to \$7,356 million, an increase of 18.0 percent over the amount for the preceding fiscal year. This increase is accounted for, in part, by the same factors, insofar as they apply to contributions of the disability insurance trust fund, that accounted for the increase in contributions to the old-age and survivors insurance trust fund (described in the preceding section), and in part by the provision in Public Law 93-233, enacted December 31, 1973, that increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1974, the allocated rate for employees and employers was increased